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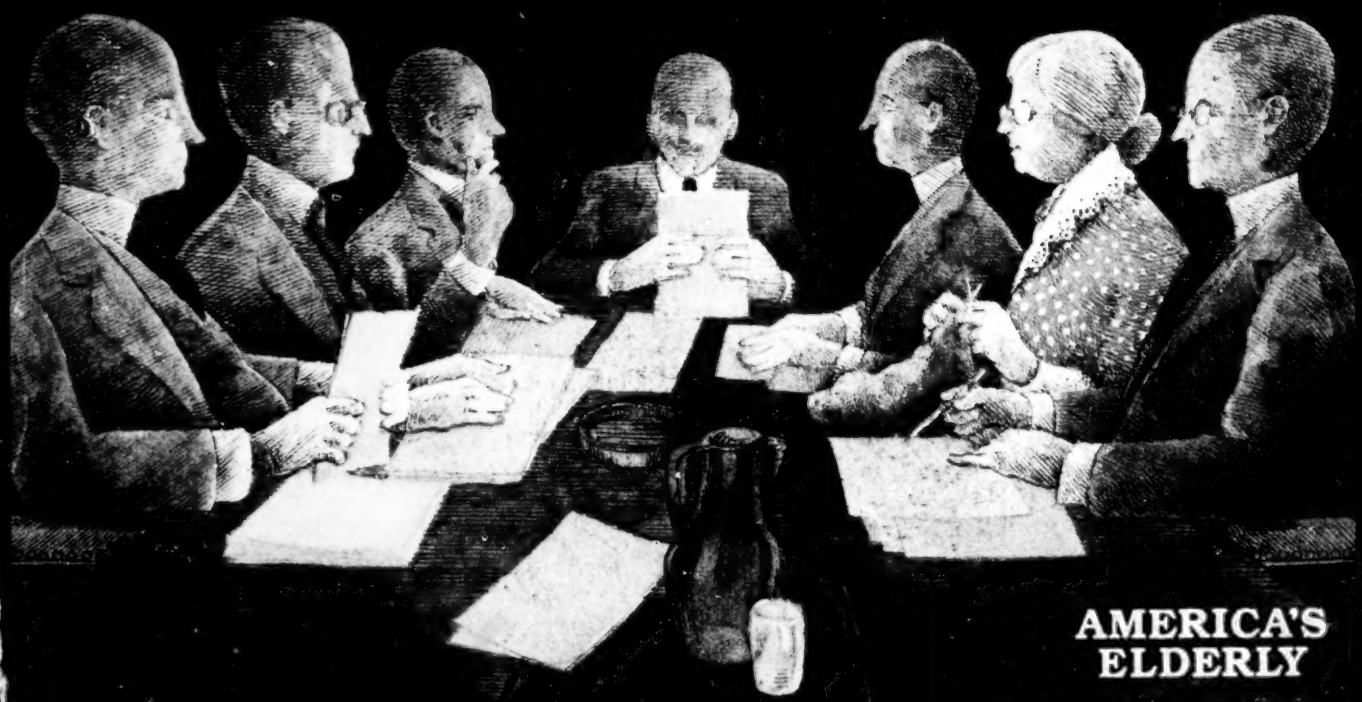

AMERICA'S ELDERLY

CAN WE AFFORD THEM?

JOHN SHERRY
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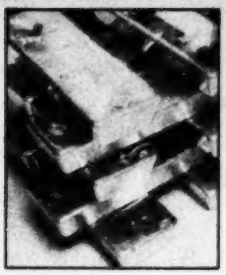

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Are we on the verge of a new bull market? On the verge? What do you call the spectacular runup in 1979? And in January 1980?

The death of what?

By Subrata Chakravarty and Jane Carmichael

IT'S ONE OF THE MEDIA MYSTERIES of our times. While a large part of the press, electronic and print alike, has busily reported that common stocks are a bum investment compared with things like diamonds and Mickey Mouse ashtrays, much of the U.S. equity market has been in a major bull market. To be sure, the market hasn't gone straight up; it never did. It could even be in a sinking spell by the time this article reaches the reader. But the fact is that when they hear stocks are boring, a good many investors chuckle happily to themselves.

The Wilshire 5000 Equity Index, which, unlike the limited Dow Jones industrials, represents the entire universe of stocks, gained a cool $175 billion dollars last year, to end 1979 at $1.06 trillion. In the early weeks of 1980 it gained a further $54 billion. While the unrepresentative DJI continued to hang nearly 175 points below the record level of 1051.7 that it hit in January 1973, the more representative New York Stock Exchange Composite Index surpassed its own January 1973 high on Jan. 28, after rising 15% during 1979.

The death of equities? They wouldn't know what you were talking about at the American Stock Exchange. The Amex Market Value Index is setting new records practically each day, and the trading volume in the first four weeks of this year has been almost *triple* the volume in the first four weeks of 1979—up to a stunning 9.4 million shares a day. And trading in options has roared up from an average of 66,406 contracts daily in 1979 to an average of 121,572 so far this year. Reflecting the frenzy, a seat on the exchange sold recently for $130,000, *vs.* a mere $21,000 as recently as 1977. And at the end of 1978 the weighted average price/earnings ratio of the Amex index overtook that of the New York Stock Exchange and has been widening the lead ever since *(see chart, p. 41)*.

What's going on? In part, investors have finally recovered from the traumatic crashes of 1970 and 1974, which left many vowing never again to touch small, thinly traded companies. "Between 1968 and 1976 there was a clear underperformance in small growth-company stocks," says Richard H. Jenrette, chairman of Donaldson, Lufkin & Jenrette. "We're now returning to equilibrium." William M. LeFevre, the highly regarded vice president-investment strategy at New York's Granger & Co., adds: "After the mess in 1970, I said the only stocks I'm going to get in—and mind you I'm in this business 30 years—are the ones on the NYSE. I mean, I got burned and I said the hell with it. I can get in enough trouble on the Big Board."

LeFevre changed his mind about the Amex and so, apparently, did tens of

The trading floor of the American Stock Exchange last month
The death of equities? They wouldn't know what you were talking about here.

thousands of individual investors. One reason for the renewed interest by individuals is a returning sense of the confidence and optimism of the Sixties after the dreary Seventies. The period of masochistic self-criticism of the Vietnam and Watergate era seems to be giving way to a renewed belief that America can lick its problems, and the attitude is being reflected in the market. "The public is basically bullish," says Sam Temer, a first vice president of Bache Halsey Stuart Shields and a floor broker on the Amex. "If you can give them a few good quarters they'll be back." The Amex has given the public a lot of good quarters lately. Fully 56 companies have shown gains of 50% in 1980 alone *(see table, p. 42, for the big winners and losers of 1980)*. Comments Amex Chairman Arthur Levitt Jr., "We're seeing a resurgence of entrepreneurial spirit in this country today." One indication of the public's confidence is that it hasn't shied away from the notoriously recession-prone Amex despite the warnings of recession.

There is, of course, an unhealthy side to all this. Forty-four percent of the value of the Amex is represented by energy-related stocks, which ran up spectacularly in 1979 *(see* FORBES, *Dec. 24, 1979)*. This year the gold, silver, strategic metals, forest products and defense-related stocks have joined in. Last year's gambling fever has evaporated. Indeed, last year's winner, National Kinney Corp.—which surged 306% in 1979's last 17 weeks on the strength of its interest in Las Vegas' Aladdin Hotel (and casino)—has so far dropped 20%.

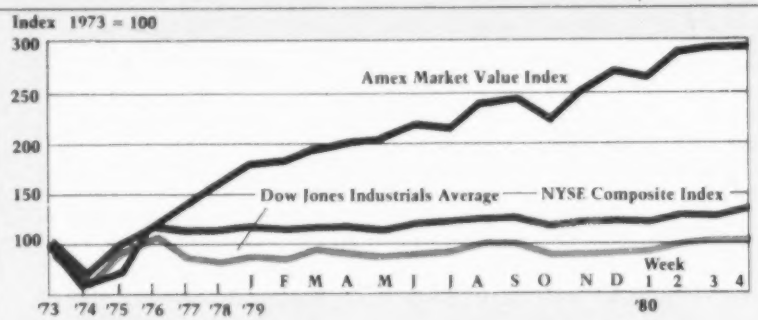
As in any bull market, the public is not always investing intelligently. Take Goldfield Corp., for example. To be sure, it has some closed mines that it wants to reopen and a promising silver mine several years away from production. But its principal businesses are coal mining and the construction of electric power plants, and it's been losing money on those. Nevertheless, it's up 133% in 1980. Or National Silver Industries. It doesn't *mine* silver—it makes silver-plated holloware, which may make it a victim instead of a beneficiary of fluctuating silver prices. But it climbed over 145% in 1980 before investors backed off.

These speculative runups are dangerous, of course, and evidence that the Amex—indeed secondary stocks in general—may be due for a rough jolt. But there seems to be more than crap shooting behind the bull market. "People are finally coming to the belief, which had been shattered in 1974-75, that fast-growing companies may indeed be the last inflation hedge," says Peter Banzhaf, a vice president of Milwaukee's Robert W. Baird & Co.

Indeed, the scramble to buy stocks seems to have elements of panic. "If you didn't make a lot of money on gold, you

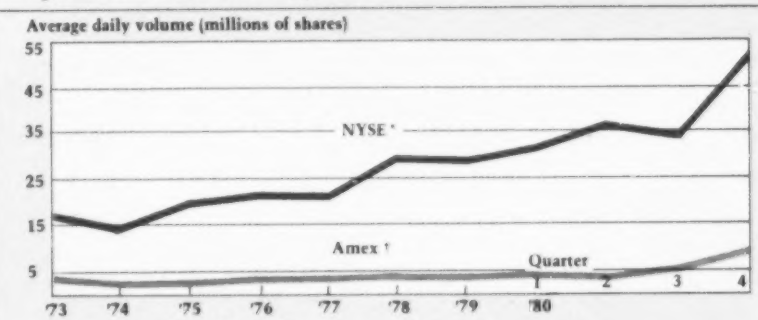
Where the action was

The Dow Jones industrial average is up a measly 3%—the NYSE Composite Index only 26%—since 1973. But the value of Amex stocks has nearly tripled in seven years.



The surge in volume

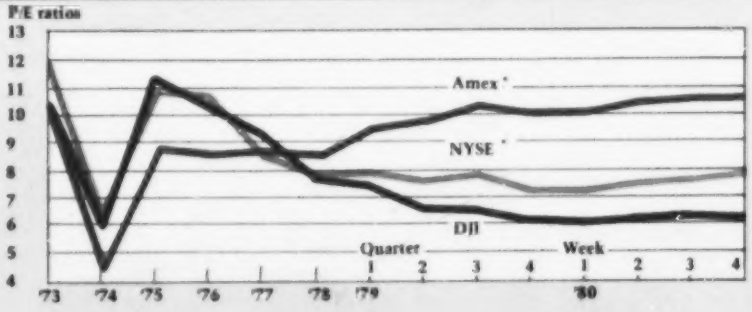
Trading volume has been going through the roof on both the NYSE and the Amex. The NYSE still has most of the business, and volume is up 86% over the first four weeks of 1979. But the Amex has done twice as well—up a spectacular 191% over last year.



* NYSE average daily reported share volume
† Amex average daily share volume

The price of earnings

Investors are willing to pay more per dollar of earnings for the average Amex stock than for either NYSE or DJI stocks—mostly because of rising demand, partly because of the low earnings of many Amex companies.



* Weighted average
Source: Media General Financial Services

Winners and losers

The 25 Amex companies below were the biggest percentage gainers in the first four weeks of 1980.

Company	% increase	Year-end price	Price 1/28/80	P/E ratio	Industry
Macrodyne	200.0	1⅛	4⅞	98	Aircraft mfr, service
Marinduque Mining	142.1	1 3/16	2⅞	16	Nickel & copper mining
San Carlos Milling	142.1	2⅜	5¾	29	Sugar
*Acme Precision Prods	133.3	1⅛	2⅝	def	Zinc die castings
Goldfield	133.3	1⅛	2⅝	def	Coal & elec power stations
*Investment Corp of Fla	106.3	2	4⅛	def	Cement
Poloron Products	100.0	1⅜	2¾	def	Mobile homes & leisure prods
Graham Mfg	96.2	6⅝	13	20	General industrial mach
Schiller Industries	95.2	7⅞	15⅜	10	Electronics & aerospace
Forest Laboratories	94.0	12½	24¼	48	Drug manufacturer
Western Pacific RR	88.1	10½	19¾	6	Railroad
Atlas Consol Mining	82.1	3½	6⅜	16	Copper mining
Servo Corp of America	80.6	3⅞	7	def	Electronics-equip mfr
Diodes	80.0	1¼	2¼	def	Semiconductor devices
Crest-Foam	78.9	2⅜	4¼	8	Rubber-plastic prods
Designcraft Jewel Inds	78.6	1¾	3⅛	45	Jewelry
Aegis	76.9	1⅜	2⅜	17	Rubber, shipyards, oil & gas svc
La Barge	76.9	1⅜	2⅜	24	Metal fabrication
Andrea Radio	76.3	4¾	8⅜	17	Radio-TV
Barnes Engineering	72.9	6	10⅜	16	Infrared electro-optical sys
Ranchers Expl & Devel	72.9	28⅜	49½	17	Uranium & copper mining
*Computer Investors Gp	70.6	2⅛	3⅝	7	Computer leasing
Franklin Realty Group	70.2	11¾	20	31	Real estate
Tech-Sym	68.0	3⅛	5¼	18	Electronics, bldg materials
Health-Chem	66.2	6⅛	10⅛	38	Medical instruments & supplies

The 25 Amex companies below were the biggest percentage losers in the first four weeks of 1980.

Company	% decline	Year-end price	Price 1/28/80	P/E ratio	Industry
Askin Service	–41.7	4½	2⅝	def	Apparel stores
Dellwood Foods	–23.2	11⅞	9⅛	7	Dairy products
GRI	–22.6	3⅞	3	18	Beauty kits
Mangood	–21.7	15	11¾	12	Electronic instruments
Valmac Industries	–21.4	12¾	9⅝	def	Poultry & cotton
†National Kinney	–20.0	9⅝	7½	def	Janitor svcs & parking lots
Intl Foodservice	–18.8	1	13/16	def	Institutional food
Fairmount Chemical	–18.4	4¾	3⅞	def	Chemicals-synthetics
ATI	–17.4	2⅞	2⅜	def	Specialty containers
McDowell Enterprises	–15.5	17¾	15	33	Highway construction, coal
Howell Industries	–15.0	5	4¼	20	Metals fabrication
Rex-Noreco	–13.8	7¼	6¼	7	Rail car leasing & mgmt
Downey S&L Assoc	–12.9	8¾	7⅝	4	Savings & loan
Mego International	–12.7	8⅞	7¾	3	Toys & dolls
†Peerless Tube	–12.5	14	12¼	7	Specialty containers
Air Express Intl	–12.5	8	7	12	Air freight forwarding
Huntington Health Svcs	–12.3	9⅛	8	10	Institutional services
Weiman	–12.1	4⅛	3⅝	28	Photographic svcs & wallpaper
Aloha Airlines	–12.0	6¼	5½	4	Regional airline
Guarantee Bank	–11.9	8⅛	7⅛	12	Banking
Cook Inds	–11.9	8⅛	7⅛	9	Pest control & insurance
Florida Rock Inds	–11.8	14⅞	13⅛	6	Cement
†Hipotronics	–11.3	15½	13¾	17	Electrical equipment
†Flagg Inds	–11.1	9	8	14	Health care facilities
AAV Cos	–10.8	4⅝	4⅛	5	Vending, wholesale distribution

def=Deficit. *Source: Media General Financial Services.*

Winners marked with asterisks were losers in the last 17 weeks of 1979; losers marked with daggers were winners. Moral: Volatility works both on the upside and on the downside.

think 'Gee, I've missed the opportunity of a lifetime, and how else can I protect myself?' " says Robert J. Farrell, chief market analyst for Merrill Lynch.

In the next leg of the bull market, will the action spread from the smaller stocks to the big, institutional-type issues? Jenrette says yes. "You're seeing a return to the performance investing of the Sixties," he says. "Institutions are once again aggressively managing their portfolios." Jenrette believes that the institutions will again begin going after the high-quality, big-capitalization, high-growth stocks—the so-called Nifty Fifty.

The multibillion-dollar asset pools simply cannot operate on any scale in the Amex or over-the-counter markets. Because the companies on the Amex tend to be small, entrepreneurial companies, they have thin floats—and that makes the Amex extremely volatile. If a large number of investors move in any direction together the impact is far more severe on the Amex than on the Big Board. Recently, for example, the Toronto-based securities firm of Wood Gundy recommended that its clients take their profits on some Canadian oil companies. The Canadian oils are both heavily represented on the Amex and heavily weighted in the index because of their higher capitalizations. The day the Wood Gundy recommendation went out, the Amex index dropped five points.

The thin float creates a special problem for the Amex specialists and consequently a special risk for Amex investors. "If things turn around, the bids are not going to be there, nor will the depth be there," says one broker. "The specialist on the Amex knows that when things come apart he's gonna be the *only* buyer. Remember what happened to those 'onyx' [electronics] stocks? When they came apart there was no interest. The selling *overwhelmed* the buyers. The difference is not so great anymore, but this is still a very real thing." Result: When things are good on the Amex, they are very good. When things are bad, they're terrible. Especially vulnerable are the second- and third-tier oil companies that do not really have much oil or great prospects of finding more.

A substantial body of shrewd market observers is now betting that the Dow Jones industrials will see a new high this year. Even if they are correct, the market could have a good many sinking spells on the way toward that goal. This much is certain: Amex, o-t-c and smaller Big Board stocks are no longer the relative bargain they were a few years ago. As the bull market gathered steam last month, Merrill Lynch's perspicacious Bob Farrell said it all: "We've had a secondary small-company stock market boom for five years. The recognition of that is finally growing, and we're getting people looking for things that haven't moved." ■

Dividends on a number of common stocks have easily kept up with the cost of living.

Statistical Spotlight

Inflation fighters

We looked for more than inflation-beating payouts alone. We list here only companies whose payouts amounted to less than 70% of earnings, this to screen out companies that might have been breathing hard to keep their payouts high. We also had an eye on debt: To make this list, a company's debt as a percentage of total capital had to be under 50%. Further, only companies that raised their dividend at least six times since 1970 were included.

These companies, alas, were nowhere as good at preserving capital as they were at raising income. The stocks of 23 of these 100 were recently selling below their price a decade ago—three of them, Allied Maintenance, Avon and ITT, for less than half their 1970 price. But another 23 of them, nearly one out of four, are now trading at double or more their 1970 price, thus having managed to beat inflation on both counts. Lousy inflation hedges? Hardly. ■

ARE COMMON STOCKS a lousy hedge against inflation? By no means. All of the 100 stocks listed below have raised their dividends over the past decade faster than consumer prices rose in that period. Over that ten-year span, the CPI more than doubled, from 112.9 in December 1969 to 229.9 last December. The cash payouts on all 100 stocks listed at least doubled, too. If you look at stocks as the source of a dividend stream rather than just a quotation in the daily newspaper, every one of these 100 kept its owners at least even with inflation.

One hundred stocks that kept up

All of the stocks listed below have increased their dividends faster than the inflation rate—since 1970.

Company	Indicated dividend yield	Indicated dividend rate	Dividend increase since 1970 %	Dividend increase since 1970 number of years	Payout ratio current	Payout ratio ten-year average	Debt as % of capital 1970	Debt as % of capital latest	Recent price	% price change since 1/1/70	Latest 12-month earnings per share	P/E ratio
HF Ahmanson	5.8%	$1.20	2,775%	7	22%	10%	NA	36%	20¾	NA	$ 5.13	4.0
Allied Maintenance	6.6	0.86	154	9	43	36	nil	nil	13⅛	–53%	1.95	6.7
Allied Stores	6.8	1.60	114	6	35	40	52%	38	23⅝	65	4.24	5.6
American Brands	8.0	5.50	120	9	42	50	31	21	68⅝	92	11.12	6.2
American District Tel	5.8	1.16	180	8	43	29	nil	2	20	–27	2.59	7.7
American Home Prods	6.0	1.60	190	9	60	57	2	nil	26¾	12	2.51	10.7
Arvin Industries	8.3	1.12	112	6	37	35	40	38	13½	32	2.78	4.9
Avon Products	7.5	2.80	156	9	65	65	10	nil	37½	–56	4.20	8.9
Ball Corp	5.5	1.40	225	8	28	27	16	37	25¼	NA	4.71	5.4
Beatrice Foods	5.9	1.20	134	9	43	42	22	26	20½	13	2.75	7.5
Bendix	5.6	2.84	119	6	36	43	22	27	51	105	7.24	7.0
H&R Block	6.2	1.60	797	9	55	37	2	1	25⅞	–6	2.71	9.5
Briggs & Stratton	5.8	1.46	116	8	43	51	nil	nil	25	90	3.32	7.5
Brockway Glass	7.4	1.08	170	9	47	30	13	27	14⅜	–43	2.32	6.3
Brunswick	6.0	0.80	675	9	34	21	34	34	13⅜	–25	2.25	5.9
Carnation	5.9	1.50	294	9	42	32	19	18	25⅜	19	3.61	7.0
Carson Pirie Scott	5.8	1.10	102	8	31	33	43	41	19	64	3.47	5.5
Castle & Cooke	5.7	0.80	147	8	45	39*	37	42	14⅛	–8	1.70	8.3
Certain-teed	5.9	0.90	125	7	65	28*	27	26	15⅜	52	1.39	11.1
Coca-Cola	5.5	1.96	172	9	59	57	2	1	35½	–14	3.34	10.6
Colgate-Palmolive	7.6	1.08	149	9	48	44	4	19	14⅛	–5	2.24	6.3
ColonialPennGroup	6.3	1.40	1,980	9	29	17	11	nil	22⅛	205	4.48	4.9
Com Sat	5.5	2.30	1,680	8	42	26	nil	1	41½	–27	5.30	7.8
Continental Corp	7.9	2.20	120	9	37	53	6	12	27⅞	33	5.34	5.2
Copperweld	6.8	1.36	168	7	33	39	25	28	20	147	4.04	5.0
Corroon & Black	5.7	1.56	348	9	53	48	nil	nil	27½	175	2.78	9.9
Cummins Engine	5.6	1.80	120	9	26	29*	36	22	31⅞	–11	6.98	4.6
Dana	6.3	1.56	145	7	29	35	22	22	24¼	120	4.97	5.0
Dennison Mfg	5.6	1.00	344	8	36	27	20	18	17¾	104	2.76	6.4
Dillon Cos	6.3	1.08	400	9	51	41	30	37	17¼	245	1.82	9.5
Eastman Kodak	6.1	2.90	119	8	44	49	4	1	47¾	–42	6.43	7.4
Emery Air Freight	6.5	1.00	324	9	65	58	nil	11	15½	8	1.51	10.3
Emhart	7.7	2.40	199	8	42	37	9	10	31	17	5.54	5.6
Esmark	6.5	1.84	283	7	42	32	28	35	28⅜	14	4.40	6.4
Exxon	8.4	4.40	108	7	46	50	17	13	52¾	70	8.56	6.1

*Less than ten years. NA Not available, went public in 1972.

Table continued on next page

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One hundred stocks that kept up with inflation

Company	Indicated dividend yield	Indicated dividend rate	Dividend increase since 1970 %	Dividend increase since 1970 number of years	Payout ratio current	Payout ratio ten-year average	Debt as % of capital 1970	Debt as % of capital latest	Recent price	% price change since 1/1/70	Latest 12-month earnings per share	P/E ratio
Federal Co	6.4%	$2.40	283%	7	41%	33% *	7%	11%	37¾	59%	$5.56	6.8
First Chicago	7.9	1.20	100	9	39	37	nil	24	15¼	18	2.91	5.2
Fleetwood Ent	5.9	0.52	550	8	60	28	nil	nil	8¾	–30	0.86	10.2
Foote Cone & Belding	6.7	1.70	121	7	51	54*	5	1	25½	137	3.02	8.4
Ford Motor	12.1	4.00	103	7	36	39*	7	10	33⅛	1	10.90	3.0
Fox-Stanley Photo	5.7	0.68	164	8	41	37	6	23	11⅞	32	1.60	7.4
Gould	7.3	1.72	167	8	46	39	30	29	23⅜	46	3.60	6.6
Harris Bankcorp	7.3	2.00	108	9	35	33	16	14	27½	3	5.22	5.3
Harsco	5.8	2.00	129	7	34	35	18	21	34⅝	130	5.27	6.6
HJ Heinz	5.6	2.20	227	9	36	33	17	15	39½	83	5.66	7.0
Hoover Universal	7.6	1.24	133	7	39	42	34	38	16⅜	13	3.20	5.1
Ideal Basic Industries	6.8	1.60	129	7	39	49	20	21	23⅝	110	4.08	5.8
INA	6.4	3.30	107	6	30	46	nil	23	51¼	55	9.51	5.4
Interco	6.3	2.40	109	9	33	32	23	14	38	43	7.01	5.4
International Tel & Tel	8.8	2.40	110	9	43	35	32	32	27⅜	–54	5.13	5.3
Fred S James	5.6	1.40	1,138	9	49	37	nil	3	25⅛	213	2.64	9.5
Jim Walter	5.9	1.80	325	9	32	23	28	39	30½	–2	5.39	5.7
Kellogg	7.0	1.32	187	9	65	62	3	11	18¾	83	1.97	9.5
Kimberly-Clark	6.6	2.88	144	7	42	48	23	19	43½	10	6.74	6.5
Leslie Fay	7.1	0.48	147	9	32	30	24	20	6¾	–18	1.50	4.5
Lincoln National	6.5	2.80	200	8	40	38	5	1	43⅛	19	6.78	6.4
Lucky Stores	6.5	1.00	182	8	45	49	39	46	15½	26	2.11	7.3
Mead	6.7	1.80	147	7	30	30*	33	36	26¾	95	5.42	4.9
Melville	5.6	1.60	273	9	37	35	9	15	28¾	64	3.74	7.7
Mobil	5.7	3.00	113	9	27	40	17	26	53	130	9.48	5.6
JP Morgan	6.1	2.80	108	8	35	40	13	23	45⅝	54	7.07	6.5
Murray Ohio Mfg	5.9	1.20	185	8	34	35	19	35	20½	116	3.07	6.7
Natl Distillers & Chem	6.7	2.00	100	6	45	53	36	28	30	78	4.04	7.4
Nevada Power	9.6	2.12	192	9	50	45	55	49	22	10	3.59	6.1
Newell Cos	7.5	0.70	170	6	33	37	NA	33	9⅜	NA	2.07	4.5
Norlin	8.2	1.60	236	6	38	29	44	39	19⅜	–20	4.23	4.6
Norris Industries	6.5	1.60	250	9	39	29	10	4	24½	168	3.61	6.8
Northwestern Steel	6.3	1.80	149	7	33	42	4	1	28½	15	5.10	5.6
Oklahoma Natural Gas	8.1	1.80	128	8	57	52	46	45	22¼	91	3.08	7.2
Papercraft	6.7	1.25	196	9	40	33	42	18	18⅝	–27	2.90	6.4
Petrie Stores	6.2	1.75	1,008	9	51	32	nil	nil	28¼	215	3.42	8.3
PPG Industries	6.9	2.00	102	8	28	44	27	28	29⅛	23	6.65	4.4
Ralston Purina	5.8	0.64	158	8	47	35	38	28	11⅛	25	1.44	7.7
Raymond Intl	5.6	1.00	652	6	30	22*	17	26	18	85	3.38	5.3
Riegel Textile	8.5	1.60	190	8	43	45	31	26	18⅞	120	3.55	5.3
Rochester Telephone	9.3	1.68	166	9	60	50	45	47	18⅛	11	2.61	6.9
Safeway Stores	7.6	2.60	126	9	47	45	8	48	34⅜	39	5.54	6.2
Scott & Fetzer	7.8	1.80	113	7	37	41	7	23	23⅛	65	4.62	5.0
Scovill	8.0	1.52	104	7	41	44	37	41	19	–15	3.51	5.4
Security Pacific	6.0	1.80	102	7	30	40	nil	30	30⅛	11	5.97	5.0
AO Smith	7.9	1.40	100	7	23	34*	29	14	17¾	–19	6.01	3.0
Southern Railway	6.6	3.68	100	8	31	41	38	30	55¾	140	10.39	5.4
Standard Oil of Cal	6.0	3.20	107	8	30	40	14	20	53⅜	110	9.77	5.5
Stauffer Chemical	5.5	1.10	139	7	35	42	27	31	20⅛	138	3.10	6.5
Transamerica	6.5	1.12	101	9	28	50	37	43	17⅛	–32	3.66	4.7
Travelers	6.0	2.48	160	7	24	32	8	3	41½	23	8.83	4.7
Unarco Industries	6.8	0.88	187	7	33	24	42	39	13	103	2.60	5.0
Union Camp	5.7	2.60	267	8	39	39	37	20	45½	121	6.22	7.3
US Tobacco	6.6	2.08	227	9	51	50	12	24	31½	234	3.60	8.8
Universal Foods	6.7	0.96	132	7	62	50	14	30	14¼	44	1.70	8.4
Universal Leaf	6.6	1.20	209	8	41	40	3	1	18⅛	169	2.85	6.4
Van Dorn	7.4	1.00	283	9	31	28	46	36	13½	8	2.99	4.5
VF Corp	7.6	1.60	183	8	43	38	17	11	21	32	3.38	6.2
Vulcan Inc	6.6	0.84	144	5	23	26*	45	25	12¾	108	3.19	4.0
Warner-Lambert	6.4	1.32	120	9	52	45	7	23	20⅝	–41	2.49	8.3
Wells Fargo	6.3	1.72	105	7	29	37	23	34	27½	13	5.75	4.8
West Point-Pepperell	8.1	2.80	115	6	44	49	10	30	34½	50	6.40	5.4
Whirlpool	7.1	1.40	153	6	48	40*	28	11	19⅝	—	2.82	7.0
White Consolidated	5.5	1.40	265	9	28	24	46	43	25⅛	32	4.70	5.4
Wiebold Stores	5.7	0.44	114	9	58	40	32	42	7¾	–6	0.74	10.5

*Less than ten years. NA Not available; went public in 1972.

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